FLASHREPORT
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Presented by Jon Fleischman

CALIFORNIA SHRINKING

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[Publisher's Note: As part of an ongoing effort to bring original, thoughtful commentary to you here at the FlashReport, I am pleased to present this column from Board of Equalization Member Michelle Steel. - Flash]

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It seems California's status as the 8th ranking economy in the world is too much for the liberal California Budget Project (CBP) to handle. California is the most populous state in the nation but, if it's up to them, we won't be for long.

In its recent policy brief, "No Free Lunch: Tax Cuts Widen Budget Gaps," CBP asserts that "reducing taxes on a state level is, at best, a zero-sum game."

Maybe CBP should change its name to the Arizona Budget Project because, if California follows their suggestions, we're going to continue seeing Californians jumping over the borders of neighboring states to make new lives for themselves.

The policy brief says that "state and local taxes are not key factors in determining where companies do business," and "all state and local taxes combined represent a tiny share of businesses' costs."

Imagine you're in a casino and you have a choice between three poker tables. The minimum bet at all three tables is $100. At table #1, there is a 1 percent tax on every bet. At table #2, there is a .5 percent tax on every bet. At table #3 there is no tax. Which table will you sit at?

CBP would tell you the tax is just a tiny share of your total bet, but you know better. Why would you sit at a poker table that would tax you -- even a little bit -- for every hand, when you could sit at a different table that allowed you to play tax free?

Why would you live in a state that takes away 10 percent of you annual income, when you could live in a state that let's you keep it all?

According to CBP, lower taxes mean fewer state jobs, and "one less dollar spent by the state means one less dollar circulating in the economy…." By that logic, if the state doesn't take a business's money, the business will hide it under the mattress.

But businesses don't hide money under their mattresses: they invest it in the bank. The bank then uses that money to provide loans to other businesses that are in a position to grow. Not only does money circulate in the private sector, it circulates as efficiently as possible.

CBP says tax cuts don't raise revenue. Under certain circumstances that's true. If the tax rate is 0 percent, the state collects no revenue. But, if the tax rate is 100 percent, the state also collects no revenue. The closer the tax rate is to 100 percent, the less incentive there is to work; the closer to 0 percent, the greater the incentive. If the tax rate is just right, the state can collect the maximum tax revenue while protecting the incentive to work.

In our current economy, a tax cut will not dramatically increase revenues. Some taxpayers will treat the money as a recouped loss and pay off debt. Others will save it in the bank, but as we see above, that's not really saving: it's investing. A tax cut will clear the path for a strong recovery.

Those who invested in the bank will start hiring and expanding. Californians, who tightened had their belts, will increase consumption as we recover from the Great Recession. This will eventually lead to increased revenues and increased growth.

But it won't happen if we follow the lead of CBP. At least not in California. If we keep our taxes high, we'll be the last to recover; flailing around in failure while our businesses escape to Arizona and other low-tax states. They'll watch from afar as California shrinks.